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## THE FAILURE OF GOVERNMENT OWNERSHIP IN CANADA

The subject of government ownership of railways is of perennial interest in the United States. Discussions of the subject usually move along two lines. One class of speakers and writers base their reasoning on certain assumptions as to the honesty, public spirit, and efficiency which would characterize a railway management representing the public. Their conclusions naturally correspond with their assumptions. Another class analyze the results of government management in one or a few countries, find them good or bad, and base on them conclusions as to whether the results in the United States would be good or bad.

Both of these kinds of reasoning have the same defect. They do not take enough account of the conditions in any given country under which a railway policy must be carried out. These conditions are of various kinds, physical, economic, political, and so on; and they largely determine the results of railway management and operation under either private or public ownership.

One of the mistakes most often made is that of ignoring the political conditions under which government ownership is, or would be, tried. The question is often treated as if it were merely one of economics. It is one both of economics and of political science. The efficiency and economy of a government are determined largely by how much it is influenced by politics of the low kind; and the influence of this kind of politics depends on the organization of the government and the attitude of the people. As the efficiency of a government as a whole must depend largely on the part played by politics, the way its railway department would be managed would necessarily be determined largely by the same cause.

The results of government railway management being largely determined by conditions, and especially by political conditions, the experience with government management in a single country, where the conditions are similar to those in the United States, may throw more light on the question in this country than much abstract

reasoning, or than large amounts of data drawn from the experience of countries where the conditions are widely different.

There is no country whose conditions, physical, economic, and political, are more similar to those of the United States than those of Canada. The Dominion is an adjacent part of the same continent. The larger part of it is extremely like the conterminous larger part of the United States. Its natural resources, industries, and products are similar. Both countries are inhabited mainly by descendants of the peoples of Northern Europe, although this point might be pressed too far. With its big French population, Canada has a large representation of the Latin races. But the ancestries of the people of the United States are not all traceable to Northern Europe; and the French in Canada have as much political capacity as our many voters from Southern Europe, not to mention our millions of negroes. The government of the United States is a democratic republic. That of Canada is not a republic in form, but its people are as self-governing and its institutions are as democratic in fact as those of any country. There are considerable economic differences; but these are unimportant in comparison with the points of resemblance.

The results of government ownership and management of railways in Canada should, therefore, afford the most reliable indication available as to what would be the results in the United States. Canada has tried public ownership and her experience has been long and on a large scale. The Dominion has owned the Intercolonial Railway for forty-seven years, and certain of the colonial governments owned parts of it before. It has owned the Prince Edward Island Railway for forty-three years, and acquired it from the government of the island. The Intercolonial and Prince Edward Island have 1,736 miles of line; and the Dominion has recently built and is operating the National Transcontinental Railway which has 2,067 miles. The Canadian government railways now have, combined, 3,803 miles of line.

The construction, by the government, of the National Transcontinental led to a scandal. The plan for its building was adopted in 1903. It was to run from Moncton to Quebec, and from Quebec to Winnipeg, and on its completion was to be leased to the Grand Trunk Pacific for 3 per cent on its cost of construction. The minis-

ter of finance presented to parliament a "liberal" estimate. Eighteen hundred miles were to cost \$61,415,000, or \$34,083 a mile. A government commission was created to handle the work. On September 30, 1911, the expenditures had reached \$109,000,000; by the end of 1914 no less than \$173,000,000, or about \$99,000 a mile, had been spent; and at latest reports the total was about \$200,000,000.

A new government commission was appointed in 1912 to investigate the work of the original government commission. It reported in 1914 that there had been gross mismanagement and extravagance, and the waste of many millions of dollars; and the Grand Trunk Pacific refused to take the property over for operation because it could not afford to pay 3 per cent on its excessive cost.

The reports regarding the mismanagement of the construction of the National Transcontinental attracted much attention in the United States. As a matter of fact, the results of government construction of the National Transcontinental are typical of the results of public ownership in Canada ever since the various parts of the Intercolonial were acquired by the Dominion forty-seven years ago.

The Intercolonial, the Prince Edward Island, and the National Transcontinental all failed to earn their operating expenses in the year ended on June 30, 1915, their combined deficit from operation being \$350,000. A stranger to the facts might attribute the results in 1915 partly to the effects of the war in Europe. For that reason, in the following study of government management in Canada, the statistics used are chiefly those for the year ended on June 30, 1914. The most attention has been given to the Intercolonial, because it is the only large road on the North American continent which has long been managed by a government.

The Intercolonial in 1914 had 1,457 miles of line. Its main lines run from Sydney and Halifax to Moncton, and thence to Quebec; and it serves the provinces of Nova Scotia, New Brunswick, and Quebec. The Prince Edward Island is a narrow-gauge road of 279 miles, serving the island of that name, and is managed by the same organization. The acquisition of the Intercolonial was provided for by the act of federation of July 1, 1867. It was originally purchased and developed by the government mainly to bind together more firmly the French and English provinces. In 1876

it had 348 miles in New Brunswick, 222 miles in Nova Scotia, and 375 miles which had been constructed by the government from Moncton, New Brunswick, to Rivière du Loup, Quebec—a total of 945 miles. From Rivière du Loup to the city of Quebec it leased a line from the Grand Trunk. The Prince Edward Island became a part of the government system when the island came into the confederation on July 1, 1873.

One of the arguments advanced for government ownership in the United States is that under it the profits made by the railways would be received by the public instead of going to private capitalists. Those who reason thus often forget that while railway companies, if successful, yield profits to private capitalists, they also, unlike state railways, pay taxes to the public. The experience of the world shows that the public, while sure to collect large taxes from private railways, is not certain to receive any profits at all from state railways. Most of them do not earn interest on their investments.

Those of Canada afford an extreme illustration. The statistics which make the deepest impression on the student of their official reports are those showing their heavy losses; and official figures tell but a fraction of the story. The Canadian people and public officials have only the haziest idea as to what the losses actually have been. No one heretofore has gone thoroughly into the matter. Many know that in some years the roads have not earned their operating expenses, but that in other years the Intercolonial has done so. Therefore, most of them apparently believe that the total losses incurred, while considerable, have not been very great. No impression could be more erroneous. The total losses sustained have been enormous.

The combined cost to June 30, 1914, of the Intercolonial and the Prince Edward Island, as shown by the official reports, was \$112,351,000, or \$64,718 per mile. The cost per mile of the Intercolonial had been \$70,815, and of the Prince Edward Island, \$31,973.<sup>1</sup> Computed in a more correct way, their total cost to the public had been \$381,000,000, or \$219,000 per mile. This figure

<sup>1</sup> *Railway Statistics for the Dominion of Canada*, published by the Department of Railways and Canals, 1914, p. xii. Capital cost per mile of the Intercolonial, as shown by *Railway Statistics* for 1915, was \$75,066.

includes expenses and interest which they had failed to earn, but nothing for the taxes which the public would have collected from them if they had been privately owned. These railways are almost entirely single-track lines; they are not very well constructed, maintained, or equipped; and yet their cost per mile to the public, properly computed, has exceeded the average capitalization of any railways in the world except those of Great Britain. Their losses in the fiscal year 1914, as shown by the official reports, were \$445,000, this being the difference between their expenses and earnings. Properly computed, their losses in that year were almost \$15,000,000. They can hardly have a physical value exceeding the \$112,000,000, or \$64,718 per mile, which they are officially represented to have cost. Assuming that they are worth this, the difference between their present value and the total amount they have cost the Canadian public is \$268,000,000, or \$154,378 a mile. This represents the absolute loss they have inflicted on the taxpayers of Canada. And this estimate, as already indicated, is really an underestimate, for it makes no allowance for the taxes the government would have collected from them if they had been privately owned. If the Intercolonial and Prince Edward Island were taxed at the same rate as the railways of the United States, their taxes would be \$600,000 a year.

Conclusions so startling should not be stated unaccompanied by the reasoning and method of calculation used in arriving at them. Let us consider in more detail, then, the official figures and the computations which may properly be based upon them.

The management of the Intercolonial by the Dominion government has covered forty-seven years. The official figures show that in twenty-two of these years its earnings have exceeded its operating expenses, its combined net earnings in these years having been \$1,967,000. In the other twenty-five years its operating expenses have exceeded its earnings, and its combined deficits from operation in these years have been over \$11,500,000. Therefore, under government management its net deficit—allowing nothing for taxes or interest—has been \$9,500,000. Still worse has been the plight of the Prince Edward Island. Its operating expenses have exceeded its earnings in every year the government has owned it, its total

operating deficit in the years 1875-1914 having amounted to \$3,280,000. The deficits from operation of the two roads under government management have been \$12,800,000. Detailed statistics regarding the cost of construction, the operating expenses, the total earnings, and the net earnings, or deficits from operation, of the Intercolonial are given in columns 1 to 4 of Table I. Totals of similar figures for the Prince Edward Island Railway and for the government roads combined are appended to the table.

The figures of these first four columns, bad as they are, take no account of one of the most important factors to be considered. This is interest charges. Interest is as unavoidable a part of the cost of conducting any business as operating expenses. If the interest charges of a private railway are not earned, it becomes bankrupt. If those of a state railway are not earned, they must be paid from taxes. Nominally, the state railways of Canada have no debt. Actually, the investment represented and the losses incurred by them appear in the government debt and the interest paid on it, for, if the earnings of the railways had sufficed to pay their expenses and interest, the government debt and the interest on it would be proportionately smaller. Therefore, to ascertain approximately the true amount which the government railways have cost the public, we must ascertain not only what has been spent for their construction, but the expenses and interest that they have not earned.

To do this the author has recast the official figures. To the original investment in the Intercolonial and the Prince Edward Island have been added the expenditures for new construction during the first year of public management, and interest on the original investment; and the net earnings or the net deficit from operation in the year—whichever resulted—has been deducted or added. This gives approximately the true cost of each railway to the public at the end of the first year of government management. This true cost has been taken as a new starting-point, and made the basis of a similar calculation for the second year; and this process has been repeated year by year for the entire history of each road. The rate of interest used in the calculations is 4 per cent. When the Dominion acquired the railways the rate it had to pay on its general

TABLE I  
INTERCOLONIAL RAILWAY

Years*	Operating Revenue	Operating Expenses	Net Earnings or Operating Deficit (—)	Official Cost of Construction	Actual Cost to the Public
1867				\$10,766,725.54	\$10,766,726.00
1868	\$ 420,752.58	\$ 359,961.08	\$ 60,791.50	11,250,079.19	11,619,957.00
1869	455,022.76	387,548.47	67,474.29	11,532,694.37	12,299,806.00
1870	471,245.09	445,208.75	26,036.34	13,262,075.86	14,495,237.00
1871	565,713.52	442,993.31	122,720.21	16,178,857.99	17,869,108.00
1872	622,900.56	595,076.22	27,824.34	21,309,999.50	23,687,100.00
1873	703,458.26	1,011,892.60	-308,434.34	26,511,449.87	30,144,562.00
1874	893,430.17	1,847,175.24	-953,745.07	30,126,348.68	35,918,988.00
1875	861,593.43	1,532,589.62	-670,996.19	33,552,448.23	41,452,843.00
1876	848,861.46	1,277,197.79	-428,336.33	34,660,769.82	44,647,615.00
1877	1,154,445.35	1,661,673.55	-507,228.20	35,979,122.01	48,259,100.00
1878	1,378,046.78	1,816,273.56	-438,226.78	36,387,938.75	51,030,608.00
1879	1,294,009.69	2,010,183.22	-716,083.53	36,614,577.94	54,014,555.00
1880	1,506,298.48	1,603,430.71	-97,131.23	38,662,592.54	58,320,283.00
1881	1,760,393.92	1,759,851.27	542.65	39,271,325.34	61,287,699.00
1882	2,079,262.66	2,069,657.45	9,605.18	39,856,894.13	64,287,699.00
1883	2,370,910.10	2,360,373.27	17,547.18	41,473,527.09	68,458,293.00
1884	2,384,414.92	2,377,433.62	6,981.30	44,163,216.58	73,879,323.00
1885	2,441,203.66	2,519,751.56	-78,547.90	45,410,223.03	78,160,050.00
1886	2,450,093.88	2,583,999.67	-133,905.79	46,090,579.37	82,100,714.00
1887	2,660,116.93	2,922,369.62	-262,252.69	47,014,309.44	86,570,726.00
1888	2,983,336.05	3,366,781.74	-383,445.69	48,727,292.73	92,129,993.00
1889	2,967,801.00	3,244,647.73	-276,847.73	51,340,586.76	98,705,325.00
1890	3,012,739.87	3,560,575.74	-847,835.87	53,310,431.46	105,471,219.00
1891	2,977,395.38	3,662,341.94	-684,946.56	54,260,512.44	111,325,096.00
1892	2,945,441.97	3,439,377.00	-493,935.03	54,577,296.40	116,588,878.00
1893	3,065,499.09	3,045,317.50	20,181.59	54,874,186.83	121,529,080.00
1894	2,987,510.17	2,981,671.98	5,838.29	55,311,720.61	126,821,939.00
1895	2,940,717.95	2,936,902.74	3,815.21	55,638,755.12	132,218,037.00
1896	2,957,670.10	3,012,827.62	-55,187.52	55,897,860.35	137,821,051.00
1897	2,866,028.02	2,925,968.67	-59,940.65	56,046,972.87	143,542,947.00
1898	3,117,669.85	3,327,648.51	-209,978.66	56,299,729.67	149,747,401.00
1899	3,738,331.44	3,675,686.21	62,645.43	57,381,659.61	156,756,582.00
1900	4,552,071.71	4,431,404.69	120,667.02	60,637,007.81	166,161,526.00
1901	4,972,235.87	5,460,404.64	-488,166.77	64,270,844.38	176,930,011.00
1902	5,671,385.91	5,574,563.30	96,822.61	68,897,685.43	188,537,229.00
1903	6,324,323.72	6,196,653.19	127,670.53	71,151,952.11	198,205,314.00
1904	6,330,231.43	7,239,982.04	-909,750.61	73,032,808.71	208,915,135.00
1905	6,783,522.83	8,508,826.75	-1,725,303.92	77,770,430.64	223,734,666.00
1906	7,643,829.90	7,881,914.36	61,915.54	81,535,601.54	236,387,308.00
1907	6,248,311.00	6,030,171.83	218,139.17	83,041,810.80	247,130,870.00
1908	9,173,558.80	9,157,435.53	16,123.27	87,424,304.00	261,382,476.00
1909	8,527,069.46	9,328,021.55	-800,952.09	91,291,536.00	276,505,959.00
1910	9,268,234.99	8,645,070.33	623,164.66	92,569,945.00	288,221,441.00
1911	9,863,783.40	9,595,976.79	267,806.61	93,332,814.00	300,245,361.00
1912	10,593,785.84	10,591,035.84	2,750.00	95,141,659.00	314,061,270.00
1913	11,984,482.69	11,984,482.69†	.....	97,533,647.00	329,020,209.00
1914	12,878,549.00	12,878,549.00‡	.....	103,430,848.00	348,089,518.00
Total, Inter-colonial Rail-way, 47 years	184,707,592.00	194,268,891.00	-9,565,036.00	103,430,848.00§	348,089,518.00
Total, Prince Edward Is-land Railway, 40 years	7,759,846.00	11,040,128.00	-3,280,282.00	8,920,369.00	32,902,398.00
Total, both govern-ment rail-ways, since act of con-federation ...	192,467,438.00	205,309,019.00	-12,845,318.00	112,351,217.00	380,991,916.00

\* Until 1907, the fiscal year ended on June 30; since that date, on March 31. The figures for 1907 as given in the table are for nine months.

† Of this total \$4,500 was paid for "compassionate allowances" by special vote of Parliament.

‡ Of this total, \$11,300 was paid for "compassionate allowances" by special vote of Parliament.

§ Total capital cost of the Intercolonial reported in *Railway Statistics*, published by the department for June 30, 1914. The cost as given in the annual report—\$101,468,073—does not include several construction items carried in separate accounts, but which are included in accounts showing results of operation.

indebtedness was more than this. It appears in official reports that it paid 5 per cent to the provincial government of Quebec for railway purposes up to 1905, and has paid 4.5 per cent since. The use of an average rate of 4 per cent for the entire period is, therefore, conservative. The results for both roads of the computations thus made are shown in the last column of Table I.

The combined total cost of construction of these lines on June 30, 1914, as officially reported, was \$112,351,217, and the unearned interest on this lost in that year, at 4 per cent, was \$4,494,048. Their combined operating expenses in the same year, as reported in *Railway Statistics*, the official publication, exceeded their total earnings by \$445,380. (The actual deficits shown in the annual reports of 1913 and 1914, as existing at the end of the fiscal years ending on March 31, were ostensibly wiped out by "compassionate allowances" under special votes of Parliament!) Therefore, in 1914 their total deficit, after adding interest, as indicated by official figures, and allowing nothing for taxes, was \$4,939,788. But this deficit for the year, which is demonstrable by the official figures, is small compared with the deficit shown by the corrected figures. The true total cost of the railways to the end of the fiscal year 1913 was \$360,285,010. Unearned interest on this at 4 per cent for the next year amounts to \$14,411,400. This, together with the deficit from operation, makes a total deficit for the year 1914 of \$14,856,780.

Since the Prince Edward Island Railway is a narrow-gauge line, serving only the island of that name, it may be that in its case the obstacles to profitable operation are insuperable. Entirely different is the situation of the Intercolonial. It is a standard-gauge road with a large mileage in a territory similar to parts of Eastern Canada and the United States in which privately managed railways operate with profit. Considering the Intercolonial separately, its cost of construction, to 1914, as officially reported, was \$103,430,848, or \$70,815 a mile.<sup>1</sup> The unearned interest on this in 1914 at 4 per cent was \$4,137,233. Its actual deficit from operation was \$291,270. Therefore, its total loss in that year, as demonstrable by the official figures, was \$4,428,503. But its total cost, including its losses, up to the beginning of the fiscal year 1914, amounted to \$348,089,518.

<sup>1</sup> *Railway Statistics of the Dominion of Canada*, 1914, p. xii.

Unearned interest on this at 4 per cent was \$13,923,580, which together with the operating deficit makes a total deficit for the year ended June 30, 1914, of \$14,214,850. And this allows nothing for the taxes the road would pay if privately owned. Such is the price the taxpayers of Canada are paying for government ownership!

There is in Intercolonial history a minor illustration of the fact that government ownership is less fatal to financial success than governmental management. The Windsor branch, from Windsor Junction to Windsor, Nova Scotia, is a part of the road. It is thirty-two miles long. Since 1881 it has been leased to operating companies and since 1911 it has been operated under lease by the Canadian Pacific. In every year but one since 1881 the government has received net earnings from it. It is maintained by the Intercolonial, and the government receives as rental one-third of its gross receipts. In the last twenty years the amount of net earnings, after deducting maintenance expenses, has varied from \$15,000 to \$39,000 per year.<sup>1</sup> The net earnings of the branch, in the aggregate, from 1881 to 1914, were \$662,555; and they account for more than one-third of all the net earnings the Intercolonial has made since 1867.

The Canadian state railways are an utter financial failure. The losses are due to low rates, to extravagant management, or to both. Many consider it expedient to make low rates on state railways, even if this causes deficits; and it can be said for this practice that those who pay the rates gain what the taxpayers lose. If the losses are due to wastefulness, the management obviously cannot be defended on any ground.

Before we inquire to what extent the losses incurred have been due to the rates made, let us consider whether it can be sound policy for railways to make unremunerative rates at the expense of the taxpayers. Either those who pay non-compensatory rates and those who pay the taxes levied to meet the deficits they cause are the same people, or they are different people. If they are the same people, what they gain by the rates is taken from them in increased taxes. If they are different people, those who pay the rates get their transportation for less than cost and those who pay the taxes

<sup>1</sup> *Annual Report*, Department of Railways and Canals, 1914, p. 420.

pay for something they do not get. It is hard to see how anybody can be benefited by saving money through low rates and having it all taken away in increased taxes. It is also hard to find justice in giving some people low rates at the cost to others of higher taxes.

Both common-sense and equity require rates to be so fixed that those who receive transportation service shall pay for it in full. The application of this principle to the situation in Canada makes it easy to decide in regard to the soundness of the rate-making policy followed on the government railways, if to it are due their losses. These railways serve only the people of the eastern provinces, and but part of them. The people of the entire Dominion must pay the taxes levied by the government. Therefore, if the trouble with the government railways is that their rates are too low, the few who use their service are unfairly benefiting at the expense of all the people of the country.

In spite of its chronic deficits, the freight rates of the Prince Edward Island Railway are very high, averaging over 4 cents per ton per mile. Its passenger rates are relatively low, averaging about 1.75 cents. But the Prince Edward Island is small and serves a restricted territory. The rates of the Intercolonial are more instructive. The average rate per passenger per mile on the railways of the United States in 1914 was 1.98 cents, and on all the railways of Canada, 2 cents.<sup>1</sup> On the Intercolonial it was 1.67 cents.<sup>2</sup> The average rate per ton per mile in the United States was 7.33 mills, and in Canada, 7.42 mills.<sup>3</sup> On the Intercolonial it was only 6 mills.<sup>4</sup>

But comparison of the rates of a single railway with those of the railways of a whole country may be misleading. For example, while the average freight rate of the Intercolonial is lower than the average rate of all the railways of the United States, there are many individual lines in this country whose average rates are lower than its average rate. The average in 1914 for the entire eastern district of the United States, in which one-half of all the freight tonnage is moved, was only 6.39 mills.<sup>5</sup>

<sup>1</sup> *Railway Statistics*, 1914, p. xxiv.

<sup>2</sup> *Ibid.*, p. 46.

<sup>3</sup> *Ibid.*, p. xxvi.

<sup>4</sup> *Ibid.*, p. 48.

<sup>5</sup> *Statistics of Railways in the United States*, Interstate Commerce Commission.

In the eastern parts of both Canada and the United States the rates generally are lower than in the western parts. This is due to various causes. In the eastern part of this country the freight traffic is dense, and the rates for years were determined by fierce competition, which reduced them to a low basis. The effects were felt in Eastern Canada. There is a great deal of traffic which moves on railways partly in that country and partly in the United States. Among these lines are the Canadian Pacific, the Grand Trunk, and the Michigan Central. In fighting for their shares of this competitive business, these roads made their through rates the same as those of rival lines in the United States, and had to put their local rates in Canada on a corresponding basis. The rates of the Intercolonial were affected by this policy.

The territory through which and the conditions under which the International operates are, of course, similar to those of the private railways of Eastern Canada. Therefore, its rates may most fairly be compared with theirs. The principal privately owned lines serving that section are the Canadian Pacific and the Grand Trunk. Unfortunately, it is not easy to compare their rates with the Intercolonial's. The Intercolonial's lines begin at Montreal and extend to the Atlantic seaboard at St. John, Halifax, and Sydney. The Canadian Pacific divides its western and eastern lines at Port Arthur and Fort William, on the western boundary of Lake Superior. Therefore, while its eastern lines extend as far east as the Intercolonial's, they include a mileage extending more than 1,000 miles farther west than the Intercolonial extends. The Grand Trunk has more mileage west of Montreal than east of it. Because of these facts the average rates of the Grand Trunk and the eastern lines of the Canadian Pacific probably would be higher than those of the Intercolonial, even if their absolute rates in the parts of their territory corresponding to its territory were the same.

There is another factor of no small importance to consider. This is the relatively great length of the Intercolonial's lines between its main terminals. The immediate purpose of its original acquisition and development by the Dominion<sup>1</sup> was to bind more firmly together the maritime provinces, whose population was chiefly

<sup>1</sup> See act of confederation.

French, and the rest of the Dominion. To accomplish this it was necessary to build a line to Montreal. There was friction between Canada and the United States. It was feared that if this line was built near the border it would, in case of war, fall into the hands of the United States.<sup>1</sup> Therefore, a route was surveyed as far as possible from the border. This extended northward to the wild, inhospitable, and almost unpeopled shores of the Gulf of St. Lawrence and the St. Lawrence River, and thence southward to Quebec and Montreal, making a roundabout and expensive way to handle traffic moving between Sydney, Halifax, and St. John, and Quebec and Montreal.

Friction between the United States and Canada long ago ceased. The Canadian Pacific has built a much shorter line, partly in Canada, and partly in the state of Maine, to the Atlantic seaboard, and has almost completed another which runs entirely in Canada and is also shorter than the Intercolonial. An enterprising management would years ago have built a cut-off to shorten the mileage of the Intercolonial between important points, thereby enabling it to compete more successfully for through traffic and to reduce the cost of handling it. Recently the government has built the National Transcontinental, with a shorter line between Moncton and Quebec; but it was intended to lease this to the Grand Trunk Pacific, a private corporation, and the government has assumed its operation only because the Grand Trunk declines to pay a rental of 3 per cent on its excessive cost. Because of the original location of the Intercolonial and the persistent error made in not reducing its length, its mileage between Halifax and Montreal is 837 miles, while that of the Canadian Pacific is only 758 miles. From St. John to Montreal by the Intercolonial is 740 miles; by the Canadian Pacific, only 483 miles.<sup>2</sup> The Intercolonial in moving a ton of freight from Halifax to Montreal carries it 10.4 per cent more miles than the Canadian Pacific, and in moving a ton from St. John to Montreal carries it 53.2 per cent more miles.

The effect produced on the comparative average rates per mile of the Intercolonial and the Canadian Pacific is obvious. The

<sup>1</sup> *Encyclopædia Britannica*, 11th ed., article "Canada" (Railways).

<sup>2</sup> *Official Railway Guide*.

Intercolonial cannot charge a higher absolute rate between any two points than the Canadian Pacific. But when a shipment moves over it, the absolute rate must be divided by a larger mileage to ascertain the average per mile. Therefore, while the actual rates of the two roads between competitive points are the same, the average per mile received by the Intercolonial on through business is smaller than that received by the Canadian Pacific. This causes the average rates per mile of the Intercolonial to give the impression that its actual rates are lower in comparison with those of the other railways of Eastern Canada than they are.

These considerations show why it is hard to make a fair comparison between the average rates of the Grand Trunk, the eastern lines of the Canadian Pacific, and the Intercolonial. But a detailed comparison of their actual rates would be out of the question; and if the various points mentioned be given due weight, a comparison of their average rates may be instructive. Table II gives their average rates for the two years ending on June 30, 1914, and June 30, 1915.<sup>1</sup>

TABLE II

	1914			1915		
	Inter-colonial	C.P.R. East-ern Lines	Grand Trunk	Inter-colonial	C.P.R. East-ern Lines	Grand Trunk
Average receipts per passenger per mile, cents. . . . .	1.669	1.808	1.778	1.82	1.894	1.753
Average receipts per ton per mile, cents	0.600	0.716	0.687	0.52	0.719	.687

The through rates of the Intercolonial are necessarily the same as those of competing lines. Considering all the conditions, the statistics indicate that its local rates are somewhat lower than those of other lines in corresponding territory; and one of its higher officers expressed to the writer the opinion that they are about 10 per cent lower.

If this is correct, the losses of the Intercolonial are due partly to the lowness of its rates, but more largely to other causes. Its

<sup>1</sup> *Railway Statistics of the Dominion of Canada* for years named, and official information as to Canadian Pacific eastern lines.

total earnings per mile in 1914 were \$8,625.<sup>1</sup> In order to have paid its operating expenses and 4 per cent on its cost of construction as officially reported, it would have had to earn \$11,541, or 34 per cent more than it did, and its rates would have had to be at least 34 per cent higher. This would have made both its average passenger rate and its average freight rate considerably higher than those of the Canadian Pacific or Grand Trunk.

Not more than one-third of the losses of the Intercolonial can be attributed to its rates. Even this one-third cannot be defended. Like its other losses, this part is defrayed from taxes. The people of the whole country are thus obliged to pay for a large part of the transportation furnished to those who travel and ship over the Intercolonial. If the government charged these travelers and shippers higher rates and voted them an equivalent subsidy, the results to all concerned would be the same, while the public would clearly perceive the true character and significance of the policy followed.

The conclusion that at least two-thirds of the losses incurred by the Intercolonial are not due to its rates suggests that they must be due to uneconomical management. In this connection stress must be laid on the fact that the cost of providing railway service necessarily includes capital expenses, as well as operating expenses. A further fact which often is overlooked is that there is a very close relationship between capital expenses and operating expenses. Under either private or public ownership the public must ultimately pay all of both of these classes of expenses; and the amount of operating expenses will under either policy depend largely on the amount of the capital expenses efficiently incurred. To reduce the grades of a railway involves an increase of investment and fixed charges—in other words, of capital expenses; but if the investment is wisely and efficiently made, it will cause a still greater diminution of operating expenses. The total expenses will thereby be diminished. Likewise, if needed capital expenditures are not made, there will be needless increases of operating expenses; if capital expenditures are unwisely or inefficiently made, there will be needless increases of fixed charges; and in either case the total expenses will

<sup>1</sup> Official statement.

become needlessly large. This close relation between capital expenses and operating expenses illustrates the folly, so strikingly exemplified in Canada, of the common practice of keeping the accounts of government railways so as not to show the exact amount of interest paid on the investment, and of calling all their net earnings "profits." It would be equally rational to ignore the operating expenses also, and to call the total earnings "profits."

Bearing in mind these facts and principles, let us investigate the total expenses of the Intercolonial. Its cost to the public to June 30, 1914, including its losses, was \$219,000 per mile. Interest on this at 4 per cent is \$8,760 per annum, which, added to its operating expenses, \$8,718 per mile, makes a total expense to the Canadian public for the service of the road of \$17,478 per mile of line, without allowing anything for the taxes lost to the public because it is not privately owned.

To pay this total from its earnings the Intercolonial's rates would have to be raised 102 per cent. The Canadian Pacific on its eastern lines charges rates slightly higher than those of the Intercolonial; it handled in 1914 a traffic slightly smaller; it collected only \$10,045 per mile of line in rates from the public; and yet it paid taxes, interest on its bonds, and 10 per cent dividends on its stock, 7 per cent of these being from earnings; and it had a surplus averaging \$256 for each mile of line.

It may be contended by some that the inclusion of all the losses the Intercolonial has sustained in getting a basis for ascertaining its actual present expenses is not fair. The writer believes that this is the only method which discloses the amount which government ownership and management have cost and are costing the people of Canada. But, to avoid this objection, let us disregard the losses sustained prior to 1914. In 1914, the cost of construction of the Intercolonial was officially reported as \$70,815 a mile. Interest on this at 4 per cent is \$2,833. Added to operating expenses, \$8,718, this makes a total expense per mile, as already indicated, of \$11,541. Taxes on the same basis as those the Canadian Pacific paid would increase this to \$11,671. The Canadian Pacific eastern lines, for each mile of line operated, collected 15 per cent less than this from the public, while handling only 6.5 per cent less traffic per mile;

they paid taxes, and they earned \$1,573 net operating income per mile; and the Canadian Pacific system, as already indicated, not only paid interest and dividends, but had a surplus. To have paid 4 per cent interest, and paid taxes and put aside surplus in the same proportion, the Intercolonial would have had to collect from the public \$11,900 for each mile of its line, or 18 per cent more per mile than the Canadian Pacific eastern lines did. The data on which these comparisons are based are given in Table III.

It is clear that the service of the Canadian Pacific, while profitable to its owners, costs the public much less in proportion than that rendered by the Intercolonial. And the expense of it is more equitably distributed. It is all paid by those who receive the service, while only from one-half to three-fourths of the total expenses incurred by the Intercolonial are borne by those who receive its service. The rest is borne by the taxpayers.

The question naturally arises why the total expenses of the Intercolonial are so great. Its "cost of construction"—the investment in it—as officially reported, amounting in 1914 to \$70,815 a mile, is excessive according to the standards of Canada and the United States. The average capitalization of the railways of the United States in 1914 was only \$66,661; and an average mile of their line was a much better piece of property and handled substantially more traffic than an average mile of the Intercolonial. The average capitalization of the private railways of Canada, excluding duplications, was \$53,619.<sup>1</sup> The average capitalization of the Canadian Pacific system was \$51,021. Most of the privately owned railways of Canada, and conspicuously the Canadian Pacific, have received subsidies from the government. The receipts of the Canadian Pacific from its land grants amount to about \$6,000 for each mile of its line. But the government aid it has received is far from adequate to account for the difference of over \$17,000 a mile between its average capitalization and the Intercolonial's "cost of construction." The explanation of the Intercolonial's large cost of construction must be that expenditures on it have been made wastefully, or that its accounts have not always distinguished

<sup>1</sup> "Operating Results of Canadian Railways in 1914," by J. L. Payne, controller of statistics of Canadian railway department, in *Railway Age Gazette*, March 26, 1915.

accurately between expenditures for construction and expenditures for operation.

TABLE III

COMPARATIVE STATISTICS OF THE INTERCOLONIAL AND CANADIAN PACIFIC EASTERN LINES FOR THE YEARS 1914 AND 1915

	YEAR ENDED JUNE 30, 1914		YEAR ENDED JUNE 30, 1915	
	Intercolonial	Canadian Pacific Eastern Lines	Intercolonial	Canadian Pacific Eastern Lines
Mileage.....	1,457	4,596.2	1,459	4,786.9
Average cost (or capitalization) per mile.....	\$70,815	\$51,021*	\$75,066	\$47,863*
Passengers carried one mile per mile of road.....	137,390	172,790	115,105	126,208
Passenger-train miles per mile of road.....	2,096	2,499.5	1,939	2,170.1
Average passengers per train....	51	69	46	58
Average rate per passenger per mile, cents.....	1.67	1.808	1.81	1.894
Average total earnings per passenger-train mile.....	\$0.978	\$1.599	\$0.966	\$1.409
Total passenger-train earnings per mile of line.....	\$2,839.90	\$3,895.94	\$2,705.80	\$3,057.07
Ton miles per mile of road.....	923,541	823,064	793,315	695,000
Revenue freight-train miles per mile of road.....	3,466.13	2,655.2	3,101.64	1,999.4
Average tons per train.....	264.74	309.98	260.54	347.56
Average rate per ton per mile, cents.....	0.60	0.716	0.52	0.719
Average earnings per revenue freight-train mile.....	\$1.61	\$2.219	\$1.58	\$2.50
Total freight revenue per mile of line.....	\$5,568.54	\$5,891.69	\$4,887.64	\$4,998.51
Operating revenue per mile of road.....	\$8,625.13	\$10,044.86	\$7,745.15	\$8,314.54
Total train miles per mile of road.....	5,562.25	4,987.4	5,033.9	3,987.1
Operating revenue per train mile.....	\$1.55	\$2.01	\$1.54	\$2.09
Operating expenses per mile of road.....	\$8,717.87	\$8,341.34	\$7,775.89	\$6,199.94
Operating expenses per train mile.....	\$1.57	\$1.67	\$1.545	\$1.56
Net earnings per mile of road.....	—\$92.74	\$1,703.52	—\$30.74	\$2,114.60
Taxes per mile of road.....	None	\$130.30*	None	\$123.90*
Operating income per mile of road.....	.....	\$1,573.22	.....	\$1,990.70

\* Average for entire system. All computations furnished from official sources.

That there long was scandalous waste in the construction of the Intercolonial is beyond question. Many years ago Sir Alexander Galt moved in Parliament that "the present system under which the road is being built as a public work of the Dominion is expensive

and unsatisfactory; . . . and that in the opinion of this house the construction and future operation of the line should be committed to private hands." Walter Shanly, the most eminent Canadian engineer of his day, who built the Hoosac Tunnel, alleged that the Intercolonial "had already involved a vast waste of money and done much to contaminate public life." Sir John MacDonald, when prime minister, said that he was "tired of the disclosures about frauds and shortages, bankrupt contractors, and contractors who had made a fortune with suspicious ease, and was disposed after construction was completed to turn over the operation of the line to the Grand Trunk or some other company." Before the Civil Service Commission of 1892, Collingwood Schreiber, a distinguished engineer, then deputy minister of railways, and for some years general manager of the line, testified that he had taken some sand from a gravel-pit in the woods near Gloucester Junction for which he offered \$5.00 as ample compensation. The owner, backed by local politicians, demanded \$70,000, and in the end obtained \$16,000. "The public's mind," said Mr. Schreiber, "is pervaded with the idea that one has a right to get all one can from the public treasury." The original estimate for an extension from Hadlow, near Quebec, to St. Charles Junction, fourteen miles long, was \$600,000. Property owners whose land and buildings were condemned appealed with such success to local politicians for assistance, "and swore one for another as to values" so ably, that the line finally cost \$2,200,000.<sup>1</sup> It seems to have been a common practice to let contracts for new construction and improvements to concerns and individuals because they were supporters of the party in power.

The only structures or facilities of the road whose character tends to explain its relatively high cost are certain of its passenger stations, which are very large and pretentious-looking for the towns in which they are situated. One is told in Canada that these are due to the influence of local members of Parliament. Appropriations for passenger stations on the Intercolonial sometimes are part of the "pork barrel" in Canada, as appropriations for post-office buildings are in the United States.

<sup>1</sup> *Montreal Gazette*, October 21, 1915.

Let us turn now from the road's capital expenses to its operating expenses. During most of the last ten years it has handled more traffic per mile, both freight and passenger, than the eastern lines of the Canadian Pacific. Within recent years the Canadian Pacific has had a heavier passenger business; but the Intercolonial still has a denser freight traffic. This was true in 1914; and in that year it ran 5,562 trains over each mile of line, as compared with 4,987 run by the Canadian Pacific eastern lines. Bearing these facts in mind, it is interesting to study the analysis of operating expenses given in Table IV:

TABLE IV  
OPERATING EXPENSES, 1914

	INTERCOLONIAL		CANADIAN PACIFIC RAILWAY EASTERN LINES	
	Total Operating Expenses per Mile	Per Cent of Total Operating Expenses	Total Operating Expenses per Mile	Per Cent of Total Operating Expenses
Maintenance of way and structures.....	\$1,454.00	16.66	\$1,744.00	21.87
Maintenance of equipment.....	1,916.00	22.06	1,621.00	20.33
Conducting transportation.....	4,936.00	56.56	4,247.00	53.27
Traffic expenses.....	199.00	2.22	171.00	2.15
General expenses.....	245.00	2.55	188.00	2.37

A question arises: Why are the Intercolonial's expenditures for maintenance of way and structures smaller than those of the Canadian Pacific, when the amount of traffic it handles and the number of trains it runs are larger? It may be answered that it is because the Intercolonial is more economically operated. This explanation can hardly be accepted, because while its total traffic, passenger and freight, per mile is only about 6.5 per cent heavier than that of the Canadian Pacific eastern lines, its cost of maintenance of equipment per mile is 11.5 per cent greater, its cost of conducting transportation per mile 13.5 per cent greater, its traffic expenses per mile 16.5 per cent greater, and its general expenses per mile 30 per cent greater. The advocates of government ownership claim that it would save money by doing away with the "princely" salaries paid to the higher officials of railways. The salaries of general officers are included in "general expenses."

These, as just noted, are 30 per cent higher per mile on the Intercolonial than on the Canadian Pacific eastern lines; and the expenses of the railway department of the government are not included in this calculation. The Intercolonial's small expenditures for maintenance of way and structures are partly due to the fact that, on the whole, its roadway and track are not kept in as good condition as those of the Canadian Pacific. A further explanation may be that expenditures which really should be charged to maintenance of way are charged to construction. The line between maintenance of way, and additions and betterments, is hard to draw accurately; and where a management is confronted with chronic deficits, as on the Intercolonial, it is under a constant temptation to make as good a showing as possible regarding operating expenses, by charging everything it can to capital account.

The small expenditures of the Intercolonial for maintenance of way are not new. In the five years ending with June 30, 1914, it spent on this account an average of only \$1,317 per mile of line, while the Canadian Pacific system, handling a smaller traffic per mile, spent an average of \$1,497. The fact that the capital—or "cost of construction"—account of the Intercolonial is rapidly growing larger without causing reductions, absolutely or relatively, in transportation expenses, supports the theory that its low figures for maintenance of way expenses are largely fictitious.

There is nothing fictitious, however, about its relatively large expenditures for other accounts. One of the surest indications of uneconomical and inefficient management is that a road is spending a relatively small part of its earnings for maintenance and a relatively large part for conducting transportation and for general and traffic purposes. What is spent for maintenance goes into the physical property and helps to keep up or improve the service, while what is spent for conducting transportation and for general and traffic purposes adds nothing to the physical property, but is gone forever. Relatively large expenditures for maintenance of way are more important than those for maintenance of equipment; for the latter may be due to a system of management which provides and uses an unnecessarily large amount of equipment. It is especially important to keep down the cost of conducting transportation, not

only because the outlay made for it is gone forever, but because it is much the largest item of railway expenses.

The main reason for the Intercolonial's relatively high cost of conducting transportation is obvious. The most effective means for restricting this part of expenses is to handle traffic in the largest possible carloads and trainloads. Now, the Intercolonial has a long average haul per ton, 265 miles; it has a denser freight traffic than the Canadian Pacific eastern lines; and yet in 1914 it carried only 265 tons per train, as compared with 310 tons for the Canadian Pacific eastern lines. In consequence it ran 30 per cent more freight trains over each mile of line to handle 12 per cent more freight traffic. Similarly it ran 84 per cent as many passenger trains over each mile of line to handle 74 per cent as much passenger traffic. The comparatively small trainloads of the Intercolonial help to explain not only its high transportation expenses, but also its high maintenance of equipment expenses. The more trains run to handle a given business, the more equipment there must be provided and maintained and the larger, other things being equal, will be the expenditures for maintenance of equipment.

The road's relatively large expenditures for conducting transportation and maintenance of equipment are no more a new thing than its relatively low expenditures for maintenance of way. During the five years ending with 1914, while its maintenance of way expenses per mile were less than those of the Canadian Pacific system, its maintenance of equipment expenses averaged \$1,746 per mile, or 33 per cent more, and its conducting transportation expenses \$4,075 per mile, or 19 per cent more.

In the United States 20 per cent of the operating expenses of the railways are incurred for maintenance of way, while on the Intercolonial less than 17 per cent are incurred for that purpose. In this country maintenance of equipment expenses are 23.8 per cent of total operating expenses, while on the Intercolonial they are 22 per cent. On the railways of the United States less than 51 per cent of operating expenditures are made for conducting transportation; on the Intercolonial, almost 57 per cent. The Intercolonial makes 39 per cent of its operating outlay for both classes of maintenance and 61 per cent for other purposes. The railways of the United

States make 44 per cent of theirs for maintenance and only 56 per cent for other purposes. The railways of the United States, with a capitalization smaller than the Intercolonial's cost of construction, handle 5 per cent more passenger traffic and 27 per cent more freight traffic per mile, with only 2.6 per cent greater operating expenses. One need not be expert in the analysis of railway statistics to see that those of the Intercolonial indicate a management which is extremely uneconomical as compared with that of the average railway in Canada or the United States.

Little of the blame for this poor showing can apparently be placed on the present minister of railways, Hon. Frank Cochrane, or the present general manager, F. P. Gutelius. When Mr. Cochrane came into office a few years ago he evidently realized that the road had long been wretchedly mismanaged; for he put Mr. Gutelius, an experienced and able railway man, a former officer of the Canadian Pacific, in charge, with large authority. Mr. Gutelius went energetically to work to increase earnings and reduce expenses. He received the loyal support of most of the officers; and he has continued, up to the present time, his efforts to improve the results secured.

The general confusion and reduction of railway earnings caused by the war have made it difficult to measure the effects of his exertions. And unfortunately the Canadian public, especially that part living in the provinces in which the Intercolonial operates, and the representatives of this part in Parliament, have grown accustomed to having, and, indeed, insist upon having, the Intercolonial managed in ways which mainly account for its high expenses. Almost every increase of rates or reduction in expenses which the present management has attempted to make has encountered opposition which soon has been supplemented by or converted into political pressure. When it tried to reduce the excessive local freight and passenger service being given, the communities affected appealed to their deputies, and they to the minister of railways. When efforts have been made to dispense with needless employees, deputies have interposed in defense of their partisans. The fiscal year ending on June 30, 1915, was a period of acute business distress in Canada. There was a heavy decline in railway traffic.

How much more freely and energetically the management of a private railway company can act in such an emergency than the management of a state railway subject to political pressure is indicated by the fact that while the Intercolonial suffered a loss of total earnings per mile of 12 per cent and reduced its operating expenses 11 per cent, the Canadian Pacific eastern lines, with a loss of earnings of 20 per cent per mile, reduced their operating expenses 25.7 per cent. The management of the Intercolonial could not have done so well as it did if it had not been saved the trouble of laying off numerous employees by having them voluntarily enlist in the army. It did not discharge these; it simply did not replace them.

When a railway produces such results over a long period they may be immediately attributable to a number of causes, but these minor causes usually are themselves the effect of a few major causes. One of the major causes in this case has been that the officers in direct charge of the property have had little incentive to manage it well. The public and Parliament have not demanded this as the stockholders and directors of a railway company do. Consequently, there has been a feeling of comparative indifference regarding results on the part of the officers. Another of the major causes has been the influence of politics. This has been *the* major cause. The part which politics formerly played is freely admitted by the officers of the road, although they say that conditions are somewhat different now. The prevailing low rates have been made as a sop to the people, and especially to the French population, of the eastern provinces. "Almost every abuse known to railroading took root and flourished, such as underbilling—that is, permitting a favored shipper to load the cars with a larger quantity of goods than he paid for, while his competitors on the other side of politics were restricted to a standard load and mulcted for any excess; the granting of secret rebates; the maintenance of an excessive number of stations and employees in order to swell the political influence of the road at election times; absurd classifications; unjust tariffs; the acquisition of more or less useless branch lines to serve partisan ends, and so on."<sup>1</sup>

<sup>1</sup> *Montreal Gazette*, October 21, 1915.

It was customary for the party in power to buy railway supplies only from its supporters; and the story is told of a dentist who engaged in the manufacture of a certain device expressly to market it on the Intercolonial by means of his political affiliations. It was common practice largely to increase the number of employees some weeks before election, and every officer of the road frequently had the experience of coming to his office and finding among his subordinates the faces of men he had never seen before, and who had been put on his pay-roll at the instance of politicians. If an influential politician wanted a man given a job on the railway he did not bother to take up the matter with the general manager or even with the division superintendent. He wrote a letter to the train-master or the roadmaster and ordered his friend and supporter employed. If an employee was discharged for incompetency or other good cause, he could usually get reinstated if he had political pull. When business fell off, politics made it impossible to reduce the number of employees and operating expenses proportionately. Political influence was used not only to secure excessively large and expensive passenger stations, but also unnecessary and unprofitable passenger and freight service. For example, when the present management came in it found that numerous passenger trains were being run into and out of St. John, Halifax, Sydney, and Newcastle, to enable leading citizens of these small cities to live in the "suburbs." Most of these trains were earning only fifteen to fifty cents per mile, but when the management tried to reduce the service it encountered a storm of opposition which soon became largely political.

As already indicated, the present management is trying to eliminate political influences and to put the operation of the road on a business basis. But the effects of the old régime are still apparent, and, as has been shown, opposition instead of assistance is offered by the part of the public served by the Intercolonial, while very little help is received from the rest of the people of Canada. In these circumstances it is hard to see how the management can accomplish much, or how it can maintain its reforming zeal long.

One of the arguments always advanced for government ownership is that the managements of state railways will and should

strive rather to promote the welfare of the people than to earn profits; and it may be contended that to show that the Intercolonial's management has been dominated by politics, that its rates have been made too low, and that there has been waste in its construction and operation, proves nothing regarding the desirability of government ownership and management, because it takes no account of the influence which has been exerted on the development and prosperity of the territory which the road serves.

The question as to the amount and character of the influence which the Intercolonial has exerted on the development and prosperity of the maritime provinces is a somewhat difficult one to answer. It is easily demonstrable by official data regarding the changes in the population, the agriculture, and the industry of these provinces and of other parts of Canada and the United States, that progress in the territory served by the Intercolonial has been relatively small and slow. In fact, it probably has been as small and slow as in any other equally large territory in Canada or the United States which has any considerable natural resources. Doubtless, however, this is due to a combination of circumstances. The natural resources of the maritime provinces from either an agricultural or a manufacturing standpoint are not great, and their population is to a large extent naturally quite conservative. One thing may be said, however, with certainty. This is that the material progress made in the territory served by the Intercolonial has not been such as to support the argument that government management of railways will tend more strongly to promote the material well-being of the public than private management. If any argument at all can be based on it, it is one against rather than in favor of government management.

The results of government ownership and management in Canada, taken as a whole, constitute a powerful argument in favor of the abandonment of that policy in the Dominion and against its adoption in the United States.

SAMUEL O. DUNN

"RAILWAY AGE GAZETTE"  
CHICAGO, ILL.